

VZCZCXRO4742
RR RUEHAST RUEHBI RUEHCI RUEHLH RUEHPW
DE RUEHNE #0573/01 0531305
ZNR UUUUU ZZH
R 221305Z FEB 08
FM AMEMBASSY NEW DELHI
TO RUEHC/SECSTATE WASHDC 0573
INFO RUEHCG/AMCONSUL CHENNAI 2494
RUEHCI/AMCONSUL KOLKATA 1806
RUEHLH/AMCONSUL LAHORE 4318
RUEHBI/AMCONSUL MUMBAI 1598
RUEHPW/AMCONSUL PESHAWAR 4778
RUEHIL/AMEMBASSY ISLAMABAD 4576
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

UNCLAS SECTION 01 OF 04 NEW DELHI 000573

SIPDIS

SENSITIVE
SIPDIS

USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER

E.O. 12958: N/A

TAGS: [EAGR](#) [EFIN](#) [EINV](#) [EPET](#) [ETRD](#) [SENV](#) [IN](#)

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
FEBRUARY 18 - FEBRUARY 22, 2008

NEW DELHI 00000573 001.2 OF 004

11. (U) Below is a compilation of Economic highlights from Embassy
New Delhi for the week of February 18-22, 2008.

BIOTECH COTTON INCREASES
FARMER INCOME

12. (U) The International Service for the Acquisition of
Agri-biotech Applications reports that biotech crops are gaining
ground worldwide with another year of double-digit growth. Studies
in India show biotech cotton has increased yields by up to 50
percent. Indian cotton growers increased income by as much as USD
250 per hectare, increasing income for cotton farmers nationally
from USD 840 million to USD 1.7 billion last year. The study showed
that 9 of 10 Indian farmers who plant biotech cotton replant it the
next year.

RIISING RUPEE PUTS A NEW TWIST
ON "OFFSHORING"

13. (U) The rising value of the rupee against the dollar has put the
brakes on the plans of an Indian automobile manufacturer to move
production from the United States to India. Ashok Leyland, a
Chennai-based builder of commercial vehicles with annual revenues of
nearly USD 2 billion, bought in May 2007 several small auto parts
companies in Alabama and the Carolinas, with a plan to shift their
production facilities (and jobs) to "low-cost" India. An Ashok
Leyland executive recently told Consulate Chennai, however, that the
strengthening rupee was forcing the company to reconsider its plans,
since the exchange-rate shift made it worthwhile for these companies
to continue manufacturing in the United States to serve the American
market. Under current circumstances, he said, the costs associated
with shifting production back to India make doing so an overly
expensive proposition. (Ashok Leyland, part of the Hinduja Group

conglomerate, has cooperative ventures with both Italian-based Fiat's IVECO brand and Japan's Nissan.)

INDIAN FORMAL PRIVATE SECTOR
ENJOYING HIGHER SALARIES

¶4. (U) As other knowledge intensive service industries take off in India, they are beginning to show higher salary growth than IT companies, as well as surpassing Asian counterparts' growth rates. (Note: The data available to Post did not include absolute wage base levels or actual monetary value of increases for cross-country comparisons. End note.) Hewitt Associates, in its 12th annual 'Asia-Pacific Salary Increase Survey' shows that Indian employees received an average salary increase of 15.1% in 2007, the highest increase across Asia-Pacific countries. Indian employees are expected to see a similar hike of 15.2% in 2008, followed by China at 8.7%, the Philippines at 8.4%, Korea at 6.7% and Thailand at 6.4%. The survey included 540 private Indian companies across 19 industries and 22 sub industries. The survey forecasts that employees in the real estate sector are likely to record the highest salary hike of 25% in 2008, followed by telecom at 17.6%, energy at 17.5%, banks at 16.9%, retail at 16.2% and accounting at 16.1%.

¶5. (SBU) Salary increases in the information technology and outsourcing sectors are forecast to record the lowest pay hikes of the covered sectors in 2008, as salaries in these sectors have stabilized between 13-14% since 2004. Press reports indicate that IT companies like Tata Consultancy Services, Wipro, Infosys and Satyam Computer Services are planning to reduce the salary increases of their employees to around 7-8% for FY 2008-09, beginning April 2008, as they seek to mitigate the impact of rupee appreciation and potential slowdown in US orders. The Hewitt survey notes that with growing competition for skilled professionals, attrition rates were at an all time high in 2007 with the insurance sector marking a turnover rate of 35.2%, followed by IT-enabled services at 28.9%,

NEW DELHI 00000573 002.2 OF 004

and the hospitality and restaurant industry at 27.1%. Automotive, energy and chemicals industries faced the least attrition rates. Comment: The growth in salaries reflects the steady expansion in these white collar service sectors. The rise in formal employment is a welcome one in India, but it also means more sectors are fighting for the insufficient pool of trained professionals in the country. This will increase the necessity of collaboration between these service industries and training institutes and colleges to produce the needed skills the industries need. End comment.

AIRPORT STRIKE FROM
FEB 26 ONWARDS

¶6. (U) The Airports Authority of India (AAI) Employees Union has called for an indefinite strike by its non-executive staff at airports across the country from February 26. According to the union leader, M.K. Ghoshal, "We have called for a strike to protest on several issues, including the proposed closure of the existing airports in Hyderabad and Bangalore (for aeronautical purposes)." The existing Hyderabad and Bangalore airports will soon be closed after the inauguration of the new greenfield airports in both those cities next month. The AAI unions have been waging a vigorous battle to oppose privatization in airport modernization and greenfield projects. The Employees Union has also launched grievances about other issues, including pensions and promotion avenues. In a country where there is a shortage of air traffic controllers and difficulties in air traffic control due to air congestion and poor airport infrastructure, the strike could have a disruptive impact on air traffic.

AIR INDIA PROFITS
FROM US ROUTES

¶7. (U) As Indian airlines offer new direct flight service to the United States, India's national carrier Air India is hoping to turn around its declining fortunes through its India-US sectors. Last

Friday, Air India launched its Delhi-New York nonstop flight, about six months after starting its Mumbai-New York service. In the coming months, Air India plans to introduce a Bangalore-San Francisco flight. The airline has future plans to connect other big cities in the US - including Washington, DC, Seattle, Houston, and Dallas, via a European stop. Jitendra Bhargava, Air India's Executive Director, has acknowledged that the India-US sector is their largest revenue generator. Last fiscal year, this sector accounted for USD 654 million and is expected to generate USD 825 million in FY 08-09. Air India is using state-of-the-art long range Boeing 777-200 aircraft and has placed orders for eight more.

18. (U) Many Indian carriers that are currently losing money are banking on the US sector to return to profitability. Jet Airways has flights to New York and Newark via its Brussels hub. It will soon launch a Mumbai-Shanghai-San Francisco flight. The airline is also planning nonstop flights to US with a very high number of business class seats. Kingfisher will begin a Bangalore-San Francisco flight this August.

PARAMOUNT WANTS BOTH BOEING
AND AIRBUS AIRCRAFT

19. (U) Chennai-based Paramount Airways, India Ltd, plans to buy at least 17 planes from both Boeing and Airbus at an estimated value of USD 1.5 billion to enable its international entry in 2011. Paramount, which operates in south India, has in its fleet five Brazilian-made Embraer planes and envisions purchasing seven Boeing 787 Dreamliners; this would make the airline the third Indian carrier after Air India and Jet Airways to buy the plane. The airline also plans to buy 10 Airbus' wide-body planes (the A330 and A350). After Paramount meets the domestic five year requirement to

NEW DELHI 00000573 003.2 OF 004

fly international routes in October 2010, the airline hopes to fly to Europe, West Asia, South-East Asia, and the US. According a press report, the airline is conducting aircraft acquisition negotiations at the ongoing Singapore Air Show. An announcement about the airline's purchases is expected in March. Paramount's Managing Director has indicated that he will approach the US Export-Import Bank as well as European credit agencies to help finance the purchases.

GOI EFFORTS TO HELP THE
COMMON PERSON

110. (U) The GOI has announced two new financial inclusion funds, each valued at USD 126 million, to help the common person (the aam aadmi in India) - the Financial Inclusion Fund and the Financial Inclusion Technology Fund. The advisory panel that recommended the two funds is headed by C Rangarajan, Chairman of the Prime Minister's economic advisory council. Rangarajan has stated that both funds will draw on contributions from the central government, Reserve Bank of India, and the National Bank for Agricultural and Rural Development. The panel has also suggested creating a National Rural Financial Inclusion Plan (NRFIP) to provide financial services to the underprivileged populations, given that nearly 46 million households in India lack access to credit.

111. (U) This proposal will bring together various groups/organizations, including regional rural banks and self-help groups, and also work towards strengthening the cooperative credit structure and using the latest technology like hand held ATMs. Under NRFIP, the panel has outlined a goal of covering financially excluded households through at least one financial channel by 2012. The GOI has already asked banks to open at least 250 accounts annually to expand coverage for the common person. According to media reports, only about 27 percent of total farm households are indebted to formal sources, of which one-third still borrow from informal sources.

SITE FOR SECOND INTERNATIONAL
AIRPORT AT VISAKHAPATNAM

¶12. (U) The Airport Authorities of India (AAI) has selected the site for a second international airport in the southern port city of Visakhapatnam. After conducting a feasibility study, AAI selected a site near Rayavaram. This is the same area that is attracting two large multi-product special economic zones (SEZs) and is home to petrochemicals investment and two oil refineries. With other projects in the works for this region, Visakhapatnam will certainly attract more international air traffic in the future.

CABINET APPROVES CONSIDERATION
OF AMENDMENTS TO ASIAN
HIGHWAY ROUTE

¶13. (U) The Indian Union Cabinet has approved a proposal to consider amendments to the Asian Highway (AH) routes 2 and AH-48, as defined in the list of highway routes under the intergovernmental agreement on the Asian Highway network which is under consideration by UNESCAP. The amendments request including the Phulbari section between Banglabandha and Siliguri and defining the route of AH-2. Also, India may request a link to Bhutan by extending the AH-48 route from Thimphu in place of the Phuntsholing-Indian border as currently outlined and then eventually, connecting it up with AH-2 at Phulbari in India. By extending AH-48 from Thimphu to Jaigaon, a border town in India, and connecting it to AH-2 in India, the new route will provide greater access to the Asian Highway Route from Bhutan to India, as well as to both Bangladesh and Nepal. The Asian Highway network, a 140,000-km project, is being executed by the division of the United Nations charged with connecting Asia and

NEW DELHI 00000573 004.2 OF 004

Europe. Of the total length, about 12,000 km will run through India alone. For the Asian Highway, 32 countries have signed an agreement to pursue this project.

NYSE EURONEXT SET TO BUY
EQUITY IN INDIA'S MULTI
COMMODITY EXCHANGE

¶14. (U) NYSE EQ>Q}QQQ~`ies, funds and exchanges to acquire up to 49% of a commodity bourse, but with single holdings capped at 5%. The transaction signed on February 15 between Catherine Kenney, President of NYSE Euronext and Jignesh Shah, Managing Director and CEO of MCX is expected to be completed over the next 2-3 months, subject to regulatory approvals. Duncan Niederauer, Chief Executive Officer of NYSE Euronext commented that the deal will produce new business opportunities for NYS in the commodities sector and deliver value to its shareholders.

¶15. (U) Jignesh Shah of MCX added that "the proceeds from the stake sale will be used to develop the spot market linkages and related infrastructure for farmers such as warehouses." For NYS, this will be its second investment in India after buying a 5% stake in the National Stock Exchange (NSE) last year. Comment: The deal was announced just weeks after the new FDI policy, suggesting that NYSE was waiting for a clear policy before making its purchase, similar to the timing of its investment in NSE last year. Other such deals may soon be forthcoming. The investment, if used as Shah indicated for warehouses and other rural infrastructure, could truly help boost farmers' access to markets and more accurate price discovery, raising their incomes. End comment.

¶16. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

MULFORD